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Camflo

CAMFLO MINES LIMITED
ANNUAL REPORT 1978

Camflo discovered, developed and operates a gold mine in the Malartic area of Northwestern Quebec.

Natural gas production is a rapidly growing source of income as a result of Camflo's participation in exploration programmes in Canada and the United States.

Principal mineral exploration programmes involve uranium, gold and industrial minerals in Canada and silver, lead, zinc in Spain.

Through subsidiary and associated companies together with investments in other resource companies, Camflo participates in coal mining in Ohio, oil and gas projects in Canada and the United States and the discovery and development of geothermal sources of power in the United States.

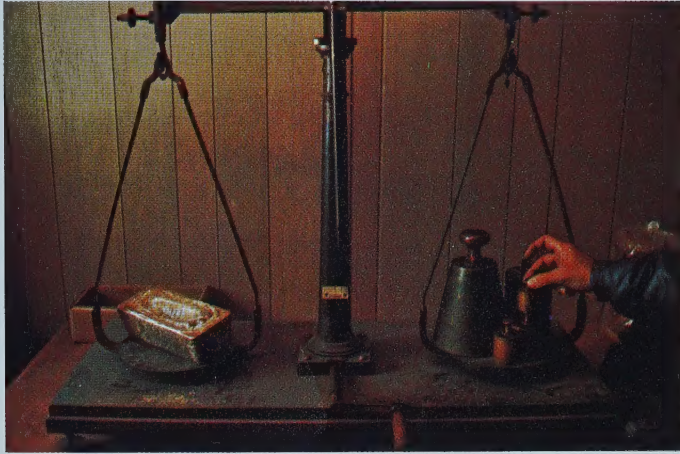
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Comparative Review of 1978 Highlights

Operating	1978	1977
Tons of Ore Milled	470,778	471,798
Ounces of Gold Recovered	76,102	87,433
Average Gold Price Received Per Ounce	\$ 226	\$ 162.50
Mining Operating Cost Per Ounce	\$ 83.75	\$ 67.49
Ore Reserves at Year End (Tons)	2,183,925	2,117,650
Recoverable Grade: Ozs./Ton	0.158	0.174
Proven Petroleum & Natural Gas Reserves:		
Gas — MCF	48,244,000	34,340,000
Oil & Condensate — barrels	69,756	77,011
Natural gas sales — MCF per year	1,700,000	1,565,000
— daily average	4,657	4,287
Oil & condensate sales — barrels per year	8,024	12,653
— daily average	22	35
Financial		
Gross Value of Bullion Production	\$17,175,864	\$14,207,549
Revenue from Petroleum & Natural Gas Operations	\$ 2,292,117	\$ 1,789,039
Net Income before Extraordinary Items	\$ 4,057,253	\$ 3,709,992
Per Share	\$ 1.17	\$ 1.08
Cash Flow from Operations	\$ 6,459,397	\$ 5,780,125
Per Share	\$ 1.86	\$ 1.67
Dividends Paid	\$ 1,753,874	\$ 1,373,243
Per Share	\$ 0.50	\$ 0.40
Working Capital — December 31	\$ (1,026,786)	\$ 306,101
Long Term Debt — December 31	\$17,880,560	\$ 2,500,000
Shareholders' Equity — December 31	\$19,774,728	\$16,891,773
Shares Outstanding — December 31	3,533,307	3,526,107
Shares Outstanding — December 31	3,478,632	3,450,920
(Weighted Average)		
Number of Registered Shareholders — December 31	2,863	2,923

1978 figures consolidate La Luz Mines Limited. As a result some of the data is not comparable with the previous year.



Directors' Report to the Shareholders

This Annual Report covers the broadening interests of the Company, including the well-established and profitable gold mine, growing oil and gas assets, the coal enterprise, geothermal energy developments, and new participations in companies with gold interests in the Red Lake camp of Northwestern Ontario.

Financial

Consolidated Net Income for 1978 was \$4,057,253 or \$1.17 per share before an extraordinary item of \$1,739,814 or 50 cents per share, representing the Company's portion of the gain on the sale of a coal deposit in Ohio. Net Income for the previous year was \$3,709,992 or \$1.08 per share. Cash flow from operations increased to \$6,459,397 or \$1.86 per share from \$5,780,125, or \$1.67 per share in 1977.

Revenue from the sale of gold bullion increased to \$17,175,864 from the production of 76,102 ounces compared with \$14,207,549 from 87,433 ounces produced in 1977. The average price received for gold rose to \$226 per ounce from \$162 per ounce in the previous year. Oil and gas revenue increased to \$2,292,117 from \$1,789,039.

The accounts of La Luz Mines Limited are consolidated for the first time in the 1978 financial statements. This consolidation is effective from July 1, 1978 when Camflo increased its interest in La Luz to over 50%. This difference in accounting presentation means that many of the figures appearing in the financial statements are not directly comparable with those of the previous year, however the resulting net income figures are comparable.

The increase in net income reflects higher prices received for gold and increases in oil and gas revenues. These positive factors were offset to a large extent by the Company's share of the loss incurred by La Luz. Camflo's share of the La Luz loss, before the extraordinary item, was \$1,690,489 or 49 cents per share. In 1977, Camflo's share of La Luz losses was \$330,948, equal to 9 cents per Camflo share. The principal reason for the loss in 1978 was the complete shutdown of coal operations in the first quarter caused by the United Mine Workers strike in the United States.

During 1978 Camflo paid dividends of 50 cents per share — the 12th consecutive year of semi-annual dividend payments to shareholders.

The Consolidated Balance Sheet at December 31, 1978 shows a working capital deficiency of \$1,026,786, net of a deficiency of \$1,446,891 attributable to La Luz and its joint ventures. The Balance Sheet at December 31, 1977, which did not consolidate La Luz and its joint ventures, reflected a working capital of \$306,101.

At December 31, 1978 Camflo and its subsidiaries owned shares in other resource companies having a market value of \$15,461,617.

Long-term bank loans increased to \$9,890,000 at year end from \$2,500,000 at the end of the previous year. These loans are secured against certain of the company's natural gas properties in Western Canada.

Despite the mining of lower grade ore, the higher average price received for gold increased revenues from the sale of gold bullion by 21%.

Natural gas reserves increased by 40% and there was a 28% increase in oil and gas revenue.

Although La Luz Mines Limited incurred a substantial loss, the coal operations in Ohio showed improvement in the second half of the year.

Since the end of the year, Camflo has provided financing to United Siscoe Mines Limited for

development of its extensive geothermal interests in the western United States. Camflo purchased 700,000 treasury shares, at a cost of \$6,300,000, to increase its shareholding in Siscoe to 22%.

Significant shareholdings were acquired in Cochenour Willans Gold Mines Limited and Neomar Resources Limited. These companies have interests in former gold producers and other properties in the Red Lake gold camp in Northwestern Ontario. Neomar also participates in oil and gas production and exploration in Western Canada.

Outlook

There is every indication that the price of gold will remain buoyant and consequently gold production will continue to be the major contributor to Camflo's earnings. Increased production of natural gas in both Canada and the United States should result in a strong advance in revenue from this division in 1979. Camflo plans to participate in drilling over 200 wells during the year. This should again result in substantial increases in reserves. Coal operations are also expected to improve after a poor 1979 first quarter.

Exploration programs will continue on the uranium prospect in northern Manitoba and the silver and base metal prospect in Spain. Other exploration programs will include the Red Lake area.

Your Directors intend to maintain close contact with geothermal energy developments. Geothermal resources are considered to have excellent growth potential as a low cost source of energy in the western United States.

General

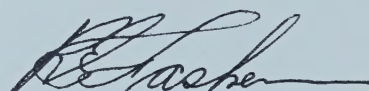
Mr. G. T. Smith resigned as President and as a Director of the Company in March 1979. Mr. A. W. Stollery has retired as Chairman and resigned from the Board. The Directors wish to acknowledge the contribution to the growth of the Company made by Mr. Smith through his many years of service, and the counsel and support received from Mr. Stollery.

Mr. Bruce Verchere of Montreal and Mr. Maxwell Goldhar of Toronto have recently joined the Board of Directors.

Mr. R. E. Fasken has been appointed Chairman, Mr. R. M. Smith, President, and Mr. W. G. Brissenden, Vice-Chairman of the Board. Mr. R. E. Fasken and Mr. R. M. Smith have served Camflo for many years as Officers and Directors. Mr. Brissenden has been a Director for the last three years and has extensive experience in the Canadian mining industry.

The growth of Camflo Mines has occurred primarily through the contributions and efforts of its staff and employees. On behalf of the Board of Directors, we express our appreciation to them. The loyal and continued support of our shareholders is also acknowledged.

On behalf of the Board,



R. E. Fasken, Chairman



R. M. Smith, President

April 11, 1979.

Review of Operations

GOLD MINING

Operations at the gold mine in the Malartic area are detailed in the following report:

Production

In 1978 the mill treated 470,778 tons of ore, an average of 1,290 tons per day. The recovered grade was 0.162 ounces of gold per ton and 76,102 ounces of gold were produced worth \$17,175,864. The mill recovery was 95.4% as compared to 95.6% in 1977.

	1978	1977	1976
Tons of ore milled	470,778	471,793	463,721
Average Recovered grade oz./ton	0.162	0.185	0.195
Ounces produced	76,102	87,433	90,458

Mine Operating Costs

Mine operating costs increased 8% to \$13.54 per ton, however productivity increased from 12.0 to 12.7 tons per man shift.

	1978		1977	
	Costs		Costs	
	Total \$000	Ton Milled \$	Total \$000	Ton Milled \$
Development ...	254	0.539	203	0.431
Mining	3,377	7.173	3,117	6.607
Milling	1,473	3.129	1,389	2.944
General	1,193	2.521	1,102	2.336
Marketing	76	0.162	90	0.190
	<u>6,373</u>	<u>13.54</u>	<u>5,901</u>	<u>12.508</u>

Summary of Ore Extraction by Levels, 1978

Level	Tonnage	Ounces/Ton
1,100-1,300	13,324	0.105
1,300-1,500	10,094	0.110
1,500-1,650	10,055	0.159
1,650-1,800	49,942	0.128
1,800-1,950	127,144	0.149
1,950-2,100	90,277	0.180
2,100-2,250	125,759	0.199
2,250-2,400	26,609	0.128
2,400-2,850	17,574	0.114

Mine Development

Mine development work in 1978 was chiefly concerned with stope preparation. Fault zone stopes were developed between the 1,100 and 2,850 ft. levels and porphyry stopes between the 2,100 and 2,700 ft. levels. Exploration work outlined some new ore in the fault zones, mainly in diorite and some low grade ore on the Willroy option.

	1978	1977	1976
Feet of Drifting and Cross-cutting	4,072	4,365	6,127
Feet of Raising	6,381	4,950	6,067
Feet of Diamond Drilling .	8,313	9,332	12,842
Stope Preparation — feet	3,153	6,102	5,535
— tons	14,660	31,424	29,523

General

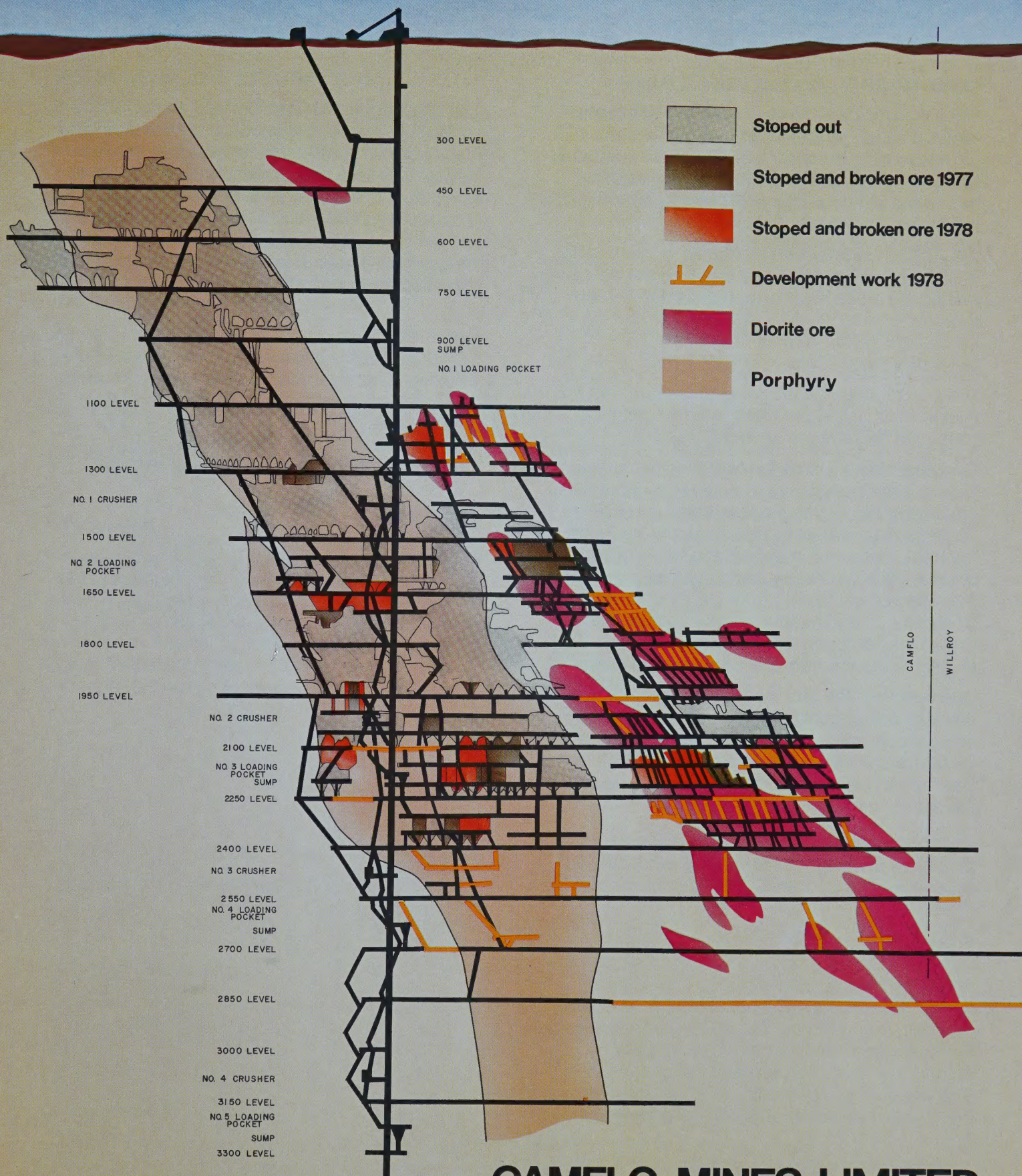
The outstanding performance of the mine employees continues to be a major factor in the success of the enterprise.

Ore Reserves

Total proven and indicated ore reserves at December 31, 1978 were 2,183,925 tons of 0.158 ounces of gold per ton. This is an increase of 66,275 tons after the milling of 470,778 tons. The increase mainly reflects the addition of lower grade ore which has only become profitable to mine due to the increase in the price of gold. Grades reported are for the estimated recoverable gold, and details of the reserves are as follows:

	Tons at Year End 1978	Tons at Year End 1977	Tons at Year End 1976
Broken Ore	298,044	243,200	329,700
Total Broken and Drilled Off	540,630	525,134	559,250
Broken and Proven — Tons	1,579,730	1,516,400	1,742,000
— oz./Ton	0.167	0.186	0.186
Indicated — Tons	604,195	601,250	658,850
— oz./Ton	0.135	0.142	0.152
Total Proven and Indicated — Tons	2,183,925	2,117,650	2,400,550
— oz./Ton	0.158	0.174	0.177

The tonnages reported include a 10% allowance for dilution. At a production rate of 1,290 tons per day the total proven and indicated tonnage represents a 4.6 year reserve.



CAMFLO MINES LIMITED

Longitudinal projection · Looking north

COAL MINING — La Luz Mines Limited

Camflo participates in coal mining in the United States through its subsidiary, La Luz Mines Limited, which has a 50% joint venture interest in two operating coal mines in Ohio. Camflo also receives a direct royalty of 10 cents per ton of coal produced.

On July 1, 1978 Camflo increased its ownership of La Luz to 51% and since that time the operating results of La Luz have been consolidated with those of Camflo. Camflo increased its holding in La Luz to 57% on August 17, 1978.

La Luz and Gilbert Fuel operate the Crown City Mine in Southern Ohio as a joint venture and the Gilbert Mine in Central Ohio as a partnership called the Muskingum Mining Company.

On November 1, 1978 the coal reserves of the Gilbert II mine were sold to a major insurance company. The funds raised enabled an earlier purchase agreement to be completed, reduced the bank loans and improved the working capital position. The insurance company also purchased the reserves of Gilbert I from Consolidated Coal Company. The mineable coal on both of these properties has been leased by the Muskingum Mining Company from the insurance company.

Due mainly to the fact that the United Mine Workers strike resulted in a complete shutdown of all coal operations for the first three months of 1978, La Luz incurred a loss of \$2,508,523 for the year ended December 31, 1978 before a gain on the sale of mining rights.

At Crown City 305,739 tons of coal were produced and 407,043 tons were produced from Muskingum for a total of 712,782 tons for the year.

A new long term sales contract has been negotiated by the Crown City Joint Venture with American Electric Power (AEP). This entails delivery of 500,000 tons per year of washed coal commencing in September 1979. Construction of the wash plant has begun and sale of this premium product will increase the profits of the joint venture. In the interim, AEP is purchasing raw coal at the rate of 500,000 tons per year.

The Muskingum Mining Company has a long term contract to supply Columbus and Southern Ohio Electric with 700,000 tons of raw coal per year. Negotiations are now underway with this utility which may result in supplying a washed coal product. Washing the coal reduces the sulphur and ash content and increases the BTU value of the product. This increases overall efficiency and improves environmental considerations.

Outlook

Deliveries during January and February 1979 were significantly below contract requirements due to severe weather and flooding conditions. In March, sales increased to 95,000 tons, and production of raw coal should exceed 100,000 tons per month for the remainder of the year.

Tungsten

La Luz Mines Limited owns a small tungsten deposit in California which is being mined on a royalty basis. Approximately 150,000 tons of ore remain to be mined. In 1978, 21,030 tons grading 0.71% WO₃ were mined and produced royalties of \$50,420 U.S.

PETROLEUM AND NATURAL GAS

In 1978 Camflo participated in the drilling of 150 wells in Canada and the United States, 79 were completed as potential gas wells and 2 as potential oil wells, for a success ratio of 54 per cent. To date Camflo has participated in drilling a total of 489 wells of which 329 have been completed, an overall success ratio of 67 per cent. Camflo's subsidiary, La Luz Mines Limited has a 35% interest in five producing gas wells in the Halkirk area of Alberta.

Proven natural gas reserves increased during the year by approximately 14 million MCF to 49 million MCF, an increase of 40 per cent.

The Company expects to participate in drilling over 200 wells during 1979 in which Camflo's working interest will range between 7% and 20%.

Production

In Canada a total of 1,700,000 MCF of natural gas was produced in 1978, compared with 1,565,000 MCF in 1977. The increase in production was lower than anticipated due to the gas surplus situation in Alberta. It is expected that there will be a substantial increase in 1979 when additional wells are brought into production.

Production of natural gas in the U.S. increased to 211,000 MCF from 121,000 MCF in 1977. Initial production at the C. H. Mayes sour gas well in East Texas was delayed until September 1978. The Company has a 9% interest in this well which has been producing recently at 10,000 MCF of natural gas and 250 barrels of condensate per day.

Exploration and Development Projects

Signalta Joint Venture — *East Central Alberta and British Columbia*

During 1978 the Company had a 27% participation in the on-going joint venture operated by Signalta Resources Ltd. of Calgary. A total of 64 wells were drilled of which 32 were completed as potential gas wells and one as a potential oil well. Signalta plans to drill about 80 wells in 1979. Camflo increased its participation in this program to 40% effective January 1, 1979. The total Joint Venture budget for 1979 is \$7,000,000.

Camflo's Share of Production:

	1978		1977	
	Thousand Cubic Feet Per Year	Thousand Cubic Feet Per Day	Thousand Cubic Feet Per Year	Thousand Cubic Feet Per Day
<u>Natural Gas</u>				
Canada	1,489,000	4,079	1,444,000	3,956
U.S.	211,000	578	121,000	331
	<u>1,700,000</u>	<u>4,657</u>	<u>1,565,000</u>	<u>4,287</u>
<u>Oil or Gas Condensate</u>	Barrels Per Year	Barrels Per Day	Barrels Per Year	Barrels Per Day
Canada	249	.68	—	—
U.S.	7,775	21.30	12,653	35.00
	<u>8,024</u>	<u>21.98</u>	<u>12,653</u>	<u>35.00</u>

Renaissance Joint Venture — Alberta and British Columbia

During 1978 Camflo had a 14.6% participation in an oil and gas joint venture operated by Renaissance Resources Ltd. of Calgary. Of 37 wells drilled 22 were completed as gas wells and one as an oil well. One gas well started production in February 1979 and several wells in British Columbia are expected to commence production in the Fall.

Camflo will have a 14% participation in the 1979/80 Renaissance Joint Venture and it is expected that about 40 wells will be drilled this year. The Joint Venture budget for 1979 will be approximately \$3,000,000.

Voyager Petroleum Limited — East Central Alberta

In 1978 the Company joined with Voyager in drilling 21 wells in the Holden and Killam areas of East Central Alberta. Eleven wells were completed as potential gas producers. Most of these wells will commence production by the end of the year.

In 1978 Gascombe Oils Limited drilled 20 wells in the Provost area on acreage farmed out from Camflo/Voyager et al. Fourteen of these wells were cased as potential gas producers.

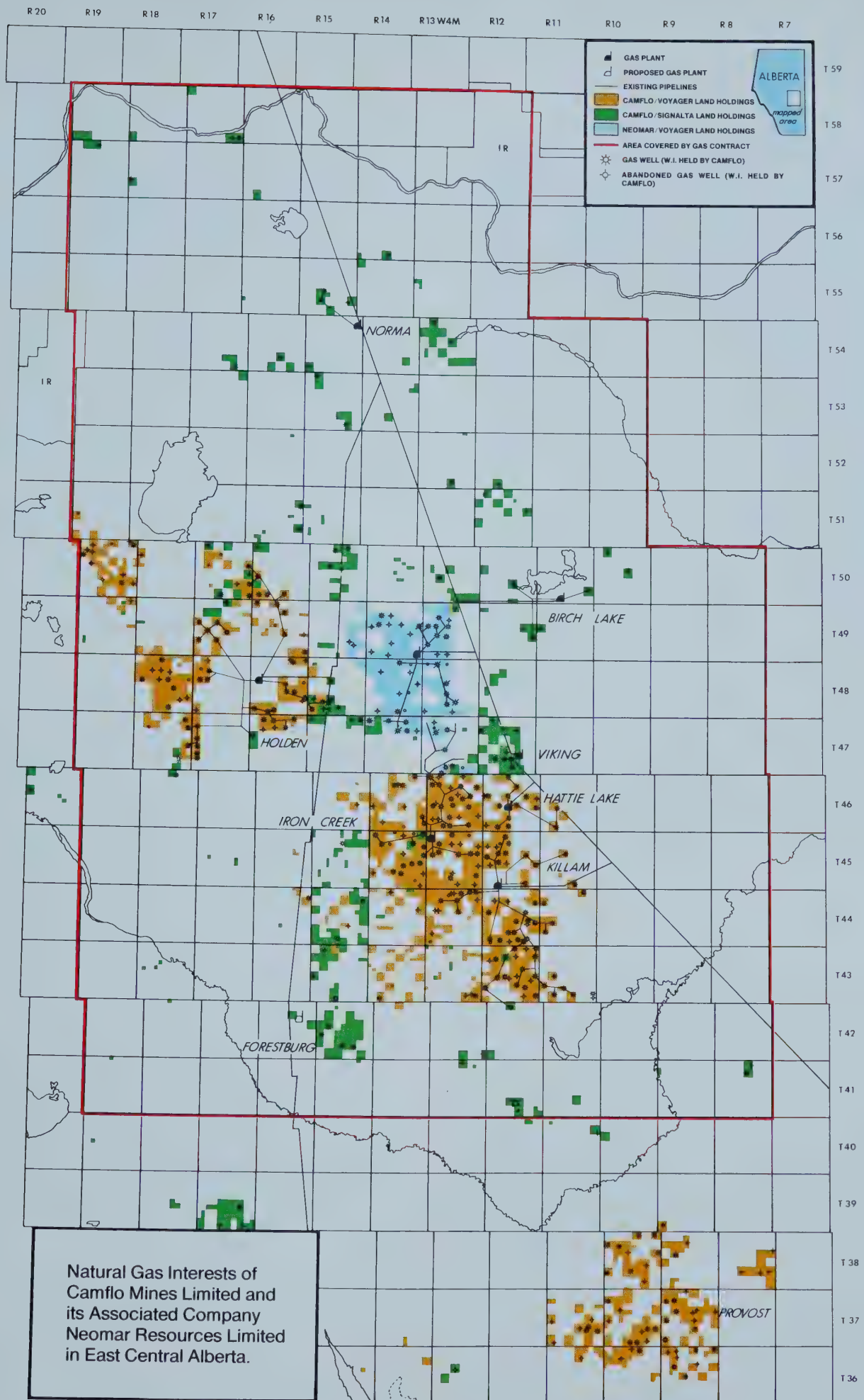
Camflo will participate with Voyager in drilling approximately 80 wells in 1979, and will have an average 12% working interest in these wells.

Orbit Joint Ventures — Texas and Montana

The exploration programs carried out over the last two years have resulted in cash flow of approximately \$450,000 per annum from two producing wells in East Texas. The Turner #2 well is now being drilled to offset the successful Turner #1 well.

**CAMFLO'S SHARE OF GROSS RESERVES
at December 31, 1978**

	Natural Gas		Total Proven and Probable	Oil & Condensate
	Proven	Probable		Proven
	MCF	MCF	MCF	Barrels
CANADA				
Camflo/Voyager	32,051,000	2,300,000	34,351,000	—
Camflo/Signalta	11,953,000	2,880,000	14,833,000	746
Camflo/Renaissance	1,281,000	184,000	1,465,000	—
Total Camflo	45,285,000	5,364,000	50,649,000	746
La Luz	203,000	—	203,000	—
Total Canadian Reserves	45,488,000	5,364,000	50,852,000	746
UNITED STATES				
CML/Daleco	50,000	—	50,000	37,809
CML/Orbit	2,706,000	—	2,706,000	31,301
Total United States Reserves	2,756,000	—	2,756,000	69,110
TOTAL CANADIAN & UNITED STATES RESERVES	48,244,000	5,364,000	53,608,000	69,756



MINING EXPLORATION

Kasmere Lake Joint Venture Uranium Project Northwestern Manitoba

An extensive uranium exploration program was continued through 1978. The work was carried out under the direction of Camflo and United Siscoe personnel under an agreement with Getty Minerals Company Limited, whereby Getty would fund 75% of the total expenditures up to \$1.2 million in 1978 and 1979 to earn a 33⅓% interest in the project. The 1978 program consisted of geological mapping, prospecting, geophysical and geochemical surveys and some 7,000 feet of diamond drilling. Although the drilling results of the 1978 program were disappointing, they assisted in the selection of other target areas which will be further defined for diamond drilling during 1979. This year's program calls for an expenditure by the Joint Venture partners of approximately \$800,000.

Iberian Exploration (Espana, S.A.) — Spain

The Company has a 21¼% net interest in Iberian Explorations (Espana) S.A. which continued its exploration program in the Pennaroya lead-zinc-silver belt throughout 1978. The work involved geology, geophysics, geochemistry and diamond drilling. Although drilling has encountered only minor values to date, a number of attractive prospects remain to be drilled in the coming season.

Allied Joint Venture Industrial Minerals

The Company evaluated several industrial mineral deposits in Western Canada during 1978 in association with Allied Chemical Canada Limited. Claim staking was followed by exploration programs which will continue in 1979.

Snodgrass Lake Gold Prospect Northwestern Ontario

The Company acquired 17 claims under option covering a gold prospect in the Shebandowan area of northwestern Ontario. In the spring of 1978 a preliminary geophysical survey was carried out and this was followed by a limited field

examination during the summer. Extensive ground magnetometer and electromagnetic surveys have been completed recently. This work and previous diamond drilling, prospecting and geology has indicated drill targets to be tested during the 1979 field season.

Beersville Coal Joint Venture New Brunswick

The activities of the Beersville joint venture coal project in New Brunswick were limited during 1978. In March 1979 the Company granted an option to St. Lawrence Cement Co. of Montreal to purchase all of its coal interests held in the Province. The total purchase price agreed upon by the joint venture members, should St. Lawrence exercise its option, is \$3 million, of which Camflo would receive \$1 million. The option is open until May 31, 1979. St. Lawrence is carrying out additional drilling as part of its evaluation program.

Lemieux Dome Project Gaspé, Quebec

The Company and Noranda (Mattagami Lake Exploration Division) have entered into an option agreement on a base metal prospect in Lemieux Township, Gaspé, Quebec. A compilation study was completed during 1978. In 1979 geophysical and geochemical surveys will be carried out in conjunction with geological mapping.

INVESTMENTS

Camflo and its subsidiary La Luz have an extensive portfolio of shares in natural resource companies. Substantial additions were made during 1979. The market value of these investments at December 31st, 1978 was \$15,461,617.

The largest single investment at year end was the holding of shares of United Siscoe Mines Limited. On April 4th, 1979, Camflo purchased 700,000 treasury shares of Siscoe at a cost of \$6,300,000. This increased Camflo's holding to 1,325,300 shares or 22% of Siscoe's issued share capital. In addition your Company was granted options on a further 300,000 shares, half of which are exercisable up to March 1, 1980, and the remainder by March 1, 1981. This investment represents a major step in the affairs of the Company and is based on our confidence in the future growth of geothermal energy in the Western United States.

Shareholders are aware of the Company's previous moves into other energy related industries, namely oil and gas and coal. Although coal operations will show a severe loss for the first calendar quarter of 1979 due to adverse weather conditions and flooding, operations should show steady improvement throughout the remainder of the year. Oil and gas production is providing a growing source of income for the Company. The use of geothermal energy in the United States is expected to increase by a factor of 30 in the next twenty years and Camflo is now well positioned to benefit from this development.

The following is a summary of Camflo's principal investments:

United Siscoe Mines Limited

Geothermal Interests

Geothermal energy in the form of natural steam coming from deep wells drilled near subterranean heat sources such as molten rock can be used to generate electricity very economically. The steam drives turbine generators and the process has



G.K.I.'s new geothermal discovery in the Imperial Valley, California.

relatively little negative effect on the environment. Capital and operating costs are significantly less than for coal-fired or nuclear-powered generating plants.

Siscoe participates in the geothermal industry through its 75% owned subsidiary Geothermal Kinetics Incorporated (GKI). Initial production from the GKI properties will be in association with the California Department of Water Resources (DWR), the second largest consumer of electrical

power in the state, being responsible for all deep well water and irrigation pumping. The DWR will purchase the steam from the producers and will construct and operate the power plants. State and Federal environmental clearances are being obtained for plant construction and detailed engineering studies are underway. Construction of the first of three 55,000 kilowatt plants is scheduled to commence in June 1980. The DWR has options to build plants on several other properties in which GKI has an interest in both the Geysers area and in the Imperial Valley of Southern California.

GKI and McCulloch Oil Corporation have joint ventures on a number of attractive geothermal prospects in the western United States.

With development plans now well advanced, Siscoe's geothermal interests will see major growth during the next few years.

Other Interests

In mining exploration Siscoe is an equal partner with Camflo in the Kasmere and Iberian projects. Siscoe also has a 20% interest in the Pinson Project, an open pit gold deposit in Nevada on which a production decision is expected by June of this year.

Siscoe holds 659,000 shares of Camflo with a current market value of \$8,567,000. Siscoe also owns shares in other companies with a current market value of \$3,665,000. Real estate is carried at a book value of \$3,895,000. Natural Gas production generates an annual net income in excess of \$400,000.

OTHER INVESTMENTS

Merland Explorations Limited

A 10% interest is held in this fast-growing oil and gas exploration company which is active in both Canada and the United States. Merland's earnings have been increasing, and were reported at 69 cents for 1978, compared with 34 cents in 1977.

Neomar Resources Limited

Camflo holds a 25% interest in this company which is participating in oil and gas projects to build cash flow. Neomar's principal interest is in the West Viking gas field in East Central Alberta where production is being expanded. Neomar plans to participate in drilling over 80 wells in 1978 in East-Central Alberta and British Columbia. Approximately 20 of these wells will be at West Viking.

Of special interest are Neomar's shareholdings in two former Red Lake area gold producers — 35% in Wilmar Mines Limited and 45% in the adjoining Annco Mines Limited.

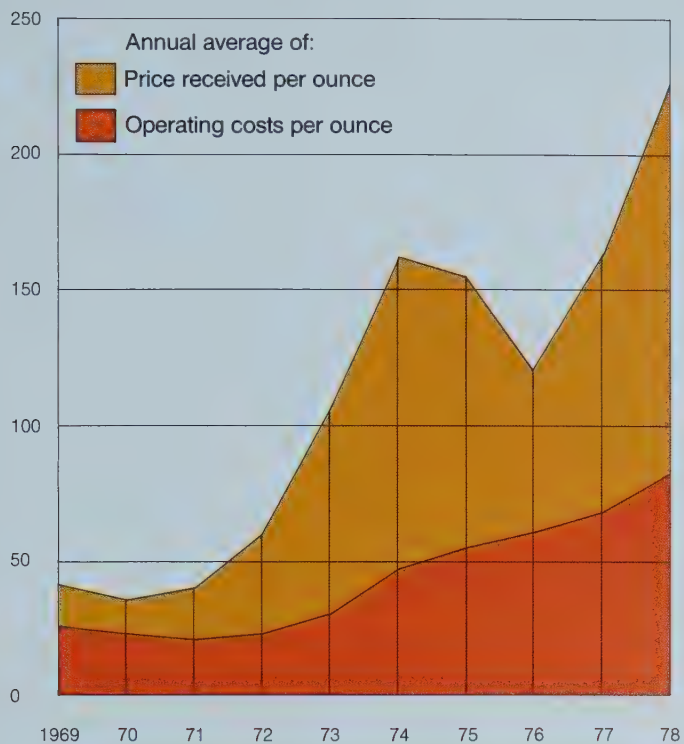
Cochenour Willans Gold Mines Limited

Camflo holds a 23% interest in this company following the refinancing of Cochenour Willans in 1978.

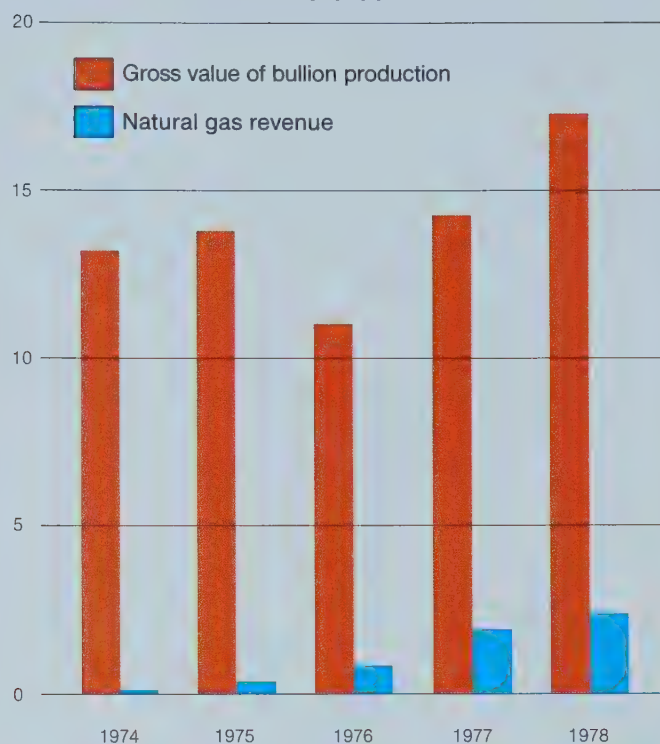
Cochenour owns a former producing gold mine in the Red Lake area. A 400 tons per day milling plant has been maintained on the property. This mine has extensive underground workings which provide access to three adjoining gold properties in which Cochenour has interests — Wilmar (65%), Annco (55%), and Consolidated Marcus Gold Mines (65%). Cochenour also has other holdings in the Red Lake camp.

All Red Lake properties owned by Neomar and Cochenour are under detailed re-assessment.

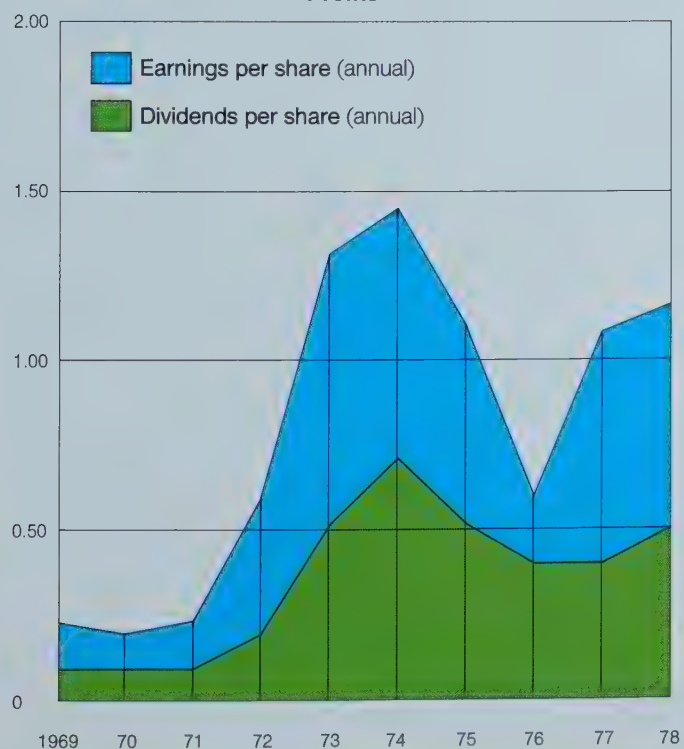
DOLLARS

Gold

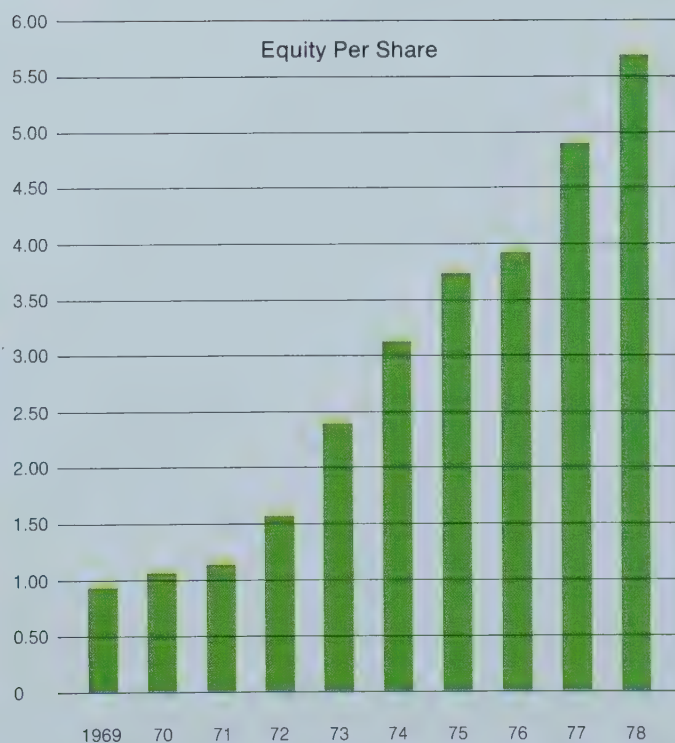
MILLIONS OF DOLLARS

Revenue

DOLLARS

Profits

DOLLARS

Shareholders

Consolidated Balance Sheet

as at December 31, 1978

Assets	1978	1977
CURRENT ASSETS		
Cash and term deposits	\$ 6,531,674	
Bullion (note 2)	2,748,773	\$ 2,796,364
Accounts and notes receivable (note 3)	3,111,590	453,388
Mine operating supplies	1,171,416	832,365
Prepaid expenses and deposits	434,598	60,509
	<u>13,998,051</u>	<u>4,142,626</u>
INVESTMENTS (note 4)		
Effectively controlled resource company		4,769,645
Other companies	11,131,461	5,766,076
	<u>11,131,461</u>	<u>10,535,721</u>
FIXED ASSETS		
Property, buildings and equipment, at cost	23,816,023	6,580,781
Less accumulated depreciation and depletion	7,180,675	3,804,439
	<u>16,635,348</u>	<u>2,776,342</u>
OTHER ASSETS AND DEFERRED EXPENDITURES		
Exploration advances	709,886	692,178
Mortgages receivable from employees	257,179	163,659
Preproduction expenditures, less amortization	1,433,622	58,588
Deferred mine exploration and development expenditures, less amortization	420,604	549,173
Deferred exploration expenditures (note 5)	1,332,395	987,750
Petroleum and natural gas properties (note 6)	11,834,058	5,817,533
Other assets	237,264	
	<u>16,225,008</u>	<u>8,268,881</u>
	<u>\$ 57,989,868</u>	<u>\$ 25,723,570</u>

CAMFLO MINES LIMITED

and its wholly owned subsidiary

Incorporated under the laws of Ontario

Liabilities	1978	1977
CURRENT LIABILITIES		
Bank loans and advances (note 7)	\$ 1,460,000	\$ 2,229,595
Accounts payable and accrued liabilities (note 8)	4,924,124	904,410
Taxes payable	999,839	702,520
Current portion of loans, notes and leases (note 9)	7,640,874	
	<u>15,024,837</u>	<u>3,836,525</u>
LONG TERM DEBT		
Term loan	9,890,000	2,500,000
Loans, notes and leases (note 9)	7,990,560	
	<u>17,880,560</u>	<u>2,500,000</u>
PROVISION FOR TERMINATION OF EMPLOYMENT	149,398	120,272
PETROLEUM AND NATURAL GAS PREPAYMENT	351,946	
DEFERRED INCOME TAXES	2,703,000	2,375,000
MINORITY INTEREST IN A SUBSIDIARY COMPANY	<u>2,105,399</u>	

Shareholders' Equity

CAPITAL (note 10)

Authorized — 5,000,000 shares, par value \$1 each		
Issued — 3,533,307 shares (1977, 3,526,107 shares)	3,533,307	3,526,107
Discount thereon	668,280	761,880
	<u>2,865,027</u>	<u>2,764,227</u>
RETAINED EARNINGS	18,170,739	14,127,546
	<u>21,035,766</u>	<u>16,891,773</u>
Deduct subsidiary company's holding of 100,000 shares of the company at value assigned thereto (note 4(a))	1,261,038	
	<u>19,774,728</u>	<u>16,891,773</u>
	<u>\$57,989,868</u>	<u>\$25,723,570</u>

Contingent liabilities and commitments (note 12)

Subsequent events (note 13)

Approved by the Board



R. E. Fasken, Director



R. M. Smith, Director

Consolidated Statement of Income

Year Ended December 31, 1978

	1978	1977
Revenue		
Bullion.....	\$ 17,175,864	\$ 14,207,549
Petroleum and natural gas	2,292,117	1,789,039
Coal.....	5,609,217	
	<u>25,077,198</u>	<u>15,996,588</u>
Operating and administrative expenses other than items set out below	13,079,700	7,165,487
Quebec mining tax	1,575,000	1,100,000
Interest (including interest on long term debt of \$1,354,908; 1977, \$130,436)	1,451,774	224,943
Exploration expenditures written off	6,760	213,359
	<u>16,113,234</u>	<u>8,703,789</u>
	<u>8,963,964</u>	<u>7,292,799</u>
Depreciation and depletion of property, buildings and equipment	1,408,088	608,086
Amortization		
Preproduction expenditures	50,365	16,740
Deferred mine exploration and development expenditures	140,202	156,907
Depreciation and depletion of petroleum and natural gas properties	470,000	246,750
Unrealized loss on foreign exchange	709,234	
	<u>2,777,889</u>	<u>1,028,483</u>
	<u>6,186,075</u>	<u>6,264,316</u>
Interest and other investment income	663,288	66,624
Income before income taxes, and undernoted items	<u>6,849,363</u>	<u>6,330,940</u>
Income taxes		
Current	2,323,000	1,638,000
Deferred.....	514,000	652,000
	<u>2,837,000</u>	<u>2,290,000</u>
Income before undernoted item	4,012,363	4,040,940
Share of loss of other companies	(6,152)	
Share of loss of effectively controlled resource company, net of related royalty and interest income (note 4(a))	(766,992)	(330,948)
Minority interest in loss of a subsidiary company	818,034	
Income before extraordinary item	4,057,253	3,709,992
Gain on sale of mining rights net of minority interest (note 11)	1,739,814	
NET INCOME	<u>\$ 5,797,067</u>	<u>\$ 3,709,992</u>
EARNINGS PER SHARE		
Income before extraordinary item	\$1.17	\$1.08
Net income	\$1.67	\$1.08

Consolidated Statement of Retained Earnings

Year Ended December 31, 1978

BALANCE AT BEGINNING OF YEAR	\$ 14,127,546	\$ 11,790,797
Net income	5,797,067	3,709,992
	<u>19,924,613</u>	<u>15,500,789</u>
Dividends	1,753,874	1,373,243
BALANCE AT END OF YEAR	<u>\$ 18,170,739</u>	<u>\$ 14,127,546</u>

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1978

	1978	1977
WORKING CAPITAL DERIVED FROM		
Operations	\$ 6,459,397	\$ 5,780,125
Proceeds on sale of — mining rights	7,237,269	
— investments	244,129	28,791
— fixed assets	360,696	5,775
Long term debt	8,903,000	2,500,000
Issue of capital	100,800	1,044,000
Petroleum and natural gas prepayment	351,946	
	<u>23,657,237</u>	<u>9,358,691</u>
WORKING CAPITAL APPLIED TO		
Advances to La Luz Mines Limited prior to June 30, 1978	2,061,681	1,734,424
Acquisition of shares of La Luz Mines Limited, together with its working capital deficiency and that of its joint ventures amounting to \$4,218,142 at June 30, 1978	4,699,589	
Additions to — deferred exploration	370,925	407,560
— investments	3,992,800	3,650,352
— fixed assets	409,064	1,023,579
Petroleum and natural gas properties	6,050,017	1,856,155
Retirement of long term debt	5,447,296	
Other	204,878	426,893
Dividends	1,753,874	1,373,243
	<u>24,990,124</u>	<u>10,472,206</u>
DECREASE IN WORKING CAPITAL POSITION	1,332,887	1,113,515
WORKING CAPITAL AT BEGINNING OF YEAR	306,101	1,419,616
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<u>\$ (1,026,786)</u>	<u>\$ 306,101</u>

Auditors' Report

To the Shareholders of
Camflo Mines Limited

We have examined the consolidated balance sheet of Camflo Mines Limited as at December 31, 1978, and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 23, 1979

Thorne Riddell & Co.,
Chartered Accountants

Notes to Consolidated Financial Statements

Year Ended December 31, 1978

1. Summary of Significant Accounting Policies

(a) Bases of consolidation

These financial statements include the accounts of the company, C.M.L. Inc. a wholly owned U.S. subsidiary and La Luz Mines Limited ("La Luz"), which is 56.7% owned (see note 4(a)) and its wholly owned subsidiary companies Panaminas, Inc. and La Luz Ohio, Inc ("La Luz Ohio"). All material intercompany transactions have been eliminated.

Investments in enterprises comprising incorporated and unincorporated joint ventures and partnerships are accounted for on a proportionate consolidation basis; the company reflects its pro rata share of the assets, liabilities, revenues and expenses of each of the enterprises in which it participates.

During the year the company acquired 25% of the outstanding shares of Neomar Resources Limited and 23.3% of the outstanding shares of Cochenour Willans Gold Mines, Limited. The company follows the equity method of accounting for these investments.

(b) Bullion

Bullion is reflected in the accounts at its actual net settlement value and/or at its estimated net realizable value less amounts received in advance pending final settlement.

(c) Mine operating supplies

Mine operating supplies are valued at cost.

(d) Depreciation, depletion and amortization

The company provides for depreciation on its gold mine assets and amortization on deferred mine exploration and development expenditures on a straight-line basis over the estimated remaining life of the mine, as determined by proven ore reserves established from time to time. Other assets are being depreciated on a straight-line basis at a rate of 20% per annum.

The company uses the unit of production method to compute depletion on coal and lands and to compute depreciation and amortization on the major portion of the property, buildings and equipment and preproduction expenditures relating to the processing of the coal.

Expenditures on mineral exploration programmes are deferred on a specific project basis until the viability of the project is determined. If a project is abandoned, the accumulated project costs are charged to income. If a project is developed, the related accumulated costs are amortized against future income from that project.

The company follows the full cost method of accounting whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expense, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are credited against such costs. Depreciation and depletion are provided on the net

costs using the composite unit of production method based on total estimated proven reserves.

(e) Basis of translation of U.S. currency

Translation of U.S. currency has been made as follows:

- (i) Current assets and liabilities, at exchange rates prevailing at the year end.
- (ii) All other assets and liabilities at exchange rates prevailing at the date the assets were acquired or the liabilities incurred.
- (iii) Income and expenses at the average rate for the year except for depreciation, depletion and amortization which is based on the cost of assets as translated.

2. Bullion

That portion of the bullion for which actual settlements have not been made is valued at estimated net realizable value, using a value for gold of \$250 per ounce (1977, \$190 per ounce).

3. Accounts and Notes Receivable

	1978	1977
Trade and other	\$881,279	\$453,388
Associated enterprises	2,230,311	
	<u>\$3,111,590</u>	<u>\$453,388</u>

4. Investments

(a) La Luz Mines Limited

During 1978, the company acquired a further 7.1% of the outstanding shares of La Luz for a cash consideration of \$481,447 and commenced consolidation of the operations of that company from June 30, 1978. Prior to June 30, 1978, La Luz was accounted for by the equity method. The company owned 897,610 (56.7%) of the outstanding shares of La Luz at December 31, 1978.

The transaction is accounted for by the purchase method and the details of the net assets acquired are as follows:

Investment in shares of Rosario Resources Corporation	\$ 1,657,694
Investment in shares of the company	1,261,038
Investment in joint ventures	5,862,090
Other assets	441,161
	<u>9,221,983</u>
Excess of current liabilities over current assets	1,076,209
Non-current loan from the company (eliminated on consolidation)	3,820,786
	<u>4,896,995</u>
	4,324,988
Less minority interest at date of acquisition	1,594,792
	<u>2,730,196</u>
Less equity in La Luz at June 30, 1978	2,248,749
Consideration	<u>\$ 481,447</u>

CAMFLO MINES LIMITED

and its wholly owned subsidiary

The investment in joint ventures consisted of the following (at book values):

Assets			
Current assets	\$ 4,094,000		
Fixed assets (net) ..	19,998,000		
Other, including preoperating costs and expenses	1,753,000	\$ 25,845,000	
Liabilities			
Current liabilities	7,229,000		
Long-term debt (U.S. \$13,130,000)	12,995,000	20,224,000	
		<u>\$ 5,621,000</u>	

Details of the company's share of net income (loss) of La Luz are as follows:

	Consolidated results from July 1, 1978 to December 31, 1978	Recorded on an equity basis from January 1, 1978 to June 30, 1978	Total	
	1978	1978	1978	1977
Revenue				
Coal	\$5,609,217			
Petroleum and natural gas	99,302			
	<u>5,708,519</u>			
Operating and administrative expenses other than items set out below	5,209,117			
Depreciation, depletion and amortization	849,950			
Unrealized loss on foreign exchange	794,875			
Interest	<u>746,960</u>			
	<u>7,600,902</u>			
	(1,892,383)			
Interest and other investment income	<u>150,852</u>			
Loss before minority interest and extraordinary item	1,741,531	\$ 766,992	\$ 2,508,523	\$ 330,948
Minority interest	<u>818,034</u>		818,034	
Loss before extraordinary item	923,497	766,992	1,690,489	330,948
Gain on sale of mining rights, net of minority interest	<u>1,739,814</u>		<u>1,739,814</u>	
Net income (loss)	<u>\$ 816,317</u>	<u>\$ (766,992)</u>	<u>\$ 49,325</u>	<u>\$ (330,948)</u>

(b) Investment in other companies

	1978	1977
Neomar Resources Limited (formerly Martin-McNeely Mines, Limited), on the equity basis	\$ 533,169	
Cochenour Willans Gold Mines, Limited, on the equity basis	870,953	
Other resource companies, at cost less amounts written off		
Marketable securities (quoted market value \$13,968,000; 1977, \$7,495,000)	9,689,839	\$ 5,727,376
Securities with no quoted market value	37,500	38,700
	<u>\$ 11,131,461</u>	<u>\$ 5,766,076</u>

Certain of the securities are lodged with the company's banker as collateral (see note 7) and certain of the securities are lodged as described in note 9.

The excess of the cost of the shares of Neomar Resources Limited over the underlying book value at date of acquisition (\$217,500) has been allocated to petroleum and natural gas properties and marketable securities and the excess of the cost of shares of Cochenour Willans Gold Mines, Limited over the underlying book values at date of acquisition (\$553,000) has been allocated to a mine property.

5. Deferred Exploration Expenditures

The deferred exploration expenditures relate principally to a uranium prospect in Manitoba, a surface coal deposit in New Brunswick and silver exploration in Spain. Recovery of deferred exploration expenditures will depend upon the development of reserves of sufficient economic value enabling profitable operations to be attained.

6. Petroleum and Natural Gas Properties

	1978	1977
Petroleum and natural gas properties, together with exploration and development thereon		
Canada	\$ 6,997,525	\$ 3,296,585
U.S.A.	<u>3,970,931</u>	<u>1,687,672</u>
	10,968,456	4,984,257
Production equipment	<u>1,816,117</u>	<u>1,313,791</u>
	12,784,573	6,298,048
Accumulated depletion and depreciation	<u>950,515</u>	<u>480,515</u>
	<u>\$ 11,834,058</u>	<u>\$ 5,817,533</u>

Notes to Consolidated Financial Statements

Year Ended December 31, 1978

7. Bank Loans and Advances

Bank loans and advances consist of the following:

	1978	1977
Demand loans	\$ 10,390,000	\$ 3,900,000
Advances	960,000	829,595
	11,350,000	4,729,595
Classified as term loan	9,890,000	2,500,000
	<u>\$ 1,460,000</u>	<u>\$ 2,229,595</u>

Certain of the company's investments in other resource companies having a quoted market value of \$12,760,000 at December 31, 1978 are pledged as collateral with the company's banker. The term loan of \$9,890,000 is secured by certain petroleum and natural gas interests.

8. Accounts Payable and Accrued Liabilities

	1978	1977
Trade and other	\$ 3,974,672	\$ 904,410
Associated enterprises	949,452	
	<u>\$ 4,924,124</u>	<u>\$ 904,410</u>

9. Loans, Notes and Leases Payable

The company's subsidiary, La Luz through a wholly-owned subsidiary La Luz Ohio, is a participant with Gilbert Fuel Co. (Gilbert) in certain coal mining operations in the State of Ohio, U.S.A., viz:

- (a) as joint venturers in the Crown City Mining Company, mining the Crown City Mine property
- (b) as partners in the Muskingum Mining Company, mining the Gilbert I and the Gilbert II mine properties.

The obligations arising from these operations consist of the following:

	La Luz Share of Total Debt	
	U.S. dollars	Canadian dollars
(a) Loans	\$ 5,590,312	\$ 5,846,485
(b) Notes	8,253,558	9,438,935
(c) Leases	313,085	346,014
	14,156,955	15,631,434
Less instalments due within one year	6,443,645	7,640,874
	<u>\$ 7,713,310</u>	<u>\$ 7,990,560</u>

Instalments due in each of the next five years:

	La Luz Share of Total Debt	
	U.S. dollars	Canadian dollars
1979	\$ 6,443,645	\$ 7,640,874
1980	2,669,028	2,785,715
1981	1,990,304	2,009,302
1982	1,003,409	1,041,713
1983	1,723,391	1,812,785

The total loan, note and lease obligations related to coal operations, which obligations are joint and several, amount to \$13,849,001 (U.S. \$13,343,468).

Instalments due as shown above are based upon the assumption that no escalation is required as to the repayment of loans as described in (a) below. Based upon the exchange rate prevailing at the year end, total long term debt and the company portion thereof would amount to Canadian \$15,822,684 and \$9,146,720 respectively.

(a) Loans

The loans bear interest at the lender's prime plus 1½%, and are repayable (in U.S. dollars) as to \$2,535,000 in 1979, \$2,860,000 in each of 1980 and 1981, \$1,300,000 in 1982 and \$275,000 in 1983 (see note 13(b)).

Escalation of principal repayments is required based upon cash flows as defined, with such additional payments to be applied to the principal in inverse order of maturity.

The loans are secured by mortgages of the joint venturers' Crown City Mine property, the surface lands owned by the Muskingum Mining Company partnership, a mortgage of the partnership's rights to mine the coal of the Muskingum Mining Company, and a security interest in all assets of Gilbert and La Luz Ohio. It is also collaterally secured by an assignment and pledge by La Luz to the lender of its investment in Camflo Mines Limited, Rosario Resources Corporation and all of the issued shares of La Luz Ohio.

The loan is guaranted by La Luz and, to the extent of U.S. \$7,000,000, by the Company. As consideration for its guarantee, the Company has been granted a royalty of U.S. 10 cents per ton from January 1, 1977 for a period of ten years.

(b) Notes payable

The notes bear interest substantially at 1½% over prime and include:

- (i) a note payable by Muskingum Mining Company in the amount of U.S. \$7,000,000 due on January 2, 1979 and discharged by New York Life Insurance Company ("New York Life") pursuant to the purchase by the latter of the Muskingum coal mining rights in November, 1978 (see note 11(b)).
- (ii) notes payable by Muskingum Mining Company to Boich Mining Company (an affiliate of Gilbert) aggregating U.S. \$3,304,034, of which \$2,077,000 is interest-free, unsecured and payable on demand following discharge of the bank loans in (a) above. Interest at 7% is payable on the balance, which is secured by a pledge of certain equipment.

(c) Leases payable

Leases payable bear interest from 8½% to 11% and are secured by a pledge of certain machinery and equipment of Crown City Mining Company. Approximately one half of the principal is payable to Boich Lime & Coal Co. (an affiliate of Gilbert).

10. Capital

On December 1, 1977 stock options were granted enabling certain employees to purchase 65,000 shares of the company at a price of \$14 per share. The options are exercisable as to 21,000 shares in the first year and 22,000 shares in each of the second and third years on a cumulative basis, expiring November 30, 1980. During 1978 options on 7,200 shares were exercised.

11. Gain on Sale of Mining Rights

In November, 1978 the coal mineral rights in the Gilbert mines were conveyed to New York Life. Of the consideration of U.S. \$13,000,000 received by the partners, U.S. \$7,000,000 was applied (on January 2, 1979) to discharge a note payable (see note 9(b)(i)), U.S. \$2,000,000 was applied to reduce certain bank indebtedness (see note 9(a)), and the balance was retained for working capital for the partnership.

New York Life leased the coal mineral rights to the partnership, which continues to operate the Gilbert mines. As consideration, the partnership is paying New York Life a coal tonnage royalty of U.S. \$3.51 per ton net of expenses on all coal produced and shipped. The partnership is required to pay a minimum royalty on 700,000 tons per year for twenty years or until royalties on 14 million tons have been paid, whichever first occurs. The lease is for a term of twenty years with successive three year renewals until exhaustion of all coal in place, subject to the lessee's right to surrender the lease at any earlier time when all economically mineable coal has been mined or minimum royalties have been paid.

12. Contingent Liabilities and Commitments

- (a) The company has eight years remaining on the lease of its head office premises at an annual rental of approximately \$79,000.
- (b) Further to an actuarial valuation during 1977 of a pension plan in which the company's employees participate with employees of affiliated companies, the companies had an unfunded liability of approximately \$102,500 which is being paid and charged to income in 14 equal annual instalments of \$10,928.
- (c) The company has given certain guarantees with respect to coal mining operations in Ohio, U.S.A. conducted by La Luz Ohio and Gilbert as joint venturers (see note 9), as follows:
 - (i) guarantee of a bank loan to the extent of U.S. \$7,000,000;
 - (ii) guarantee of reclamation bonds placed with the State of Ohio aggregating approximately U.S. \$4,575,000.

La Luz Ohio and Gilbert furnished surety bonds in the approximate amount of U.S. \$7,850,000 to the State of Ohio to insure the restoration of land affected by strip mining.

- (d) A writ was served on the company in 1971 alleging certain wrongful acts and claimed damages of \$1,330,000; however, the plaintiff has not pursued its

claim. The company contends that the allegations are unfounded.

- (e) La Luz Ohio and its joint venturer have contracted with Minerals Management Associates, Inc., (a company affiliated with Gilbert Fuel Co.) to manage the joint venture operations. The manager is remunerated as follows:
 - (i) in respect of the Crown City joint venture, as to the greater of three per cent of the sales price of all coal sold and delivered, or U.S. \$.20 per ton.
 - (ii) in respect of the Muskingum partnership, as to U.S. \$.20 per ton on all coal sold and delivered, and reimbursement for all direct costs incurred, subject to escalation in accordance with changes in the U.S. Consumer Price Index.
- (f) La Luz was named as one of 16 defendants in an action filed by J. Ralph Saylor in the United States District Court for the Southern District of New York on February 18, 1965 on behalf of The Tonopah Mining Company of Nevada. In a judgment dated January 14, 1971, the Court concluded that a proposed settlement of U.S. \$250,000 was fair and reasonable and was preferable to the continuance of litigation.

An appeal by the plaintiff objecting to the terms of the settlement was allowed by the Appeal Court, and litigation has continued and is still in progress. By arrangement with another party to the litigation the net liability of the company is limited to approximately 13% of any judgement or settlement.

13. Subsequent Events

- (a) The company has agreed to purchase for investment purposes 700,000 treasury shares of United Siscoe Mines Limited at a price of \$9.00 per share. In consideration therefor the company will receive options to purchase up to an additional 150,000 shares at \$10.00 per share on or before March 1, 1980 and up to a further 150,000 shares at \$12.00 per share on or before March 1, 1981. The company has arranged short term bank financing for an amount approximating \$6,300,000.
- (b) The terms of the loans payable as outlined in note 9(a) have subsequently been amended to bear interest at 2% over prime, to be repayable (in U.S. dollars) as to \$1,182,000 in 1979, \$1,576,000 in 1980 to 1984 inclusive, and \$394,000 in 1985.

The lender has also offered additional financing of up to U.S. \$2,250,000 to the joint venturers at 2% over prime, to finance the purchase and construction of a coal washing plant at the Crown City Mine.

14. Other Statutory Information

Direct remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to \$330,700 (1977, \$361,997).

TEN-YEAR COMPARATIVE SUMMARIES OF PRODUCTION AND FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS

	1978	1977	1976
Gross Value of Bullion Production	\$17,175,864	\$ 14,207,549	\$ 11,005,763
Average Gold Price Received (per ounce)	\$ 226	\$ 162.50	\$ 121.67
Petroleum and Natural Gas Revenue	\$ 2,292,117	\$ 1,789,039	\$ 683,328
Operating and Administration Expenses	\$13,079,700	\$ 7,165,487	\$ 6,358,992
Depreciation and Amortization	\$ 2,777,889	\$ 1,028,483	\$ 821,357
Income Taxes (net)	\$ 2,837,000	\$ 2,290,000	\$ 1,456,000
Net Income Excluding Extraordinary Items	\$ 4,057,253	\$ 3,709,992	\$ 2,045,323
Net Income Per Share	\$ 1.17	\$ 1.08	\$ 0.60
Cash Flow from Operations	\$ 6,459,397	\$ 5,780,125	\$ 3,639,891
Cash Flow Per Share	\$ 1.86	\$ 1.67	\$ 1.06
Dividends Paid	\$ 1,753,874	\$ 1,373,243	\$ 1,375,643
Dividends Paid Per Share	\$ 0.50	\$ 0.40	\$ 0.40

FINANCIAL POSITION (at year end)

Working Capital (deficiency)	\$ (1,026,786)	\$ 306,101	\$ 1,419,616
Investments	\$11,131,461	\$10,535,721	\$ 5,504,395
Fixed Assets (net)	\$16,635,348	\$ 2,771,842	\$ 2,409,536
Other Assets and Deferred Expenditures	\$16,225,008	\$ 8,268,881	\$ 5,998,670
Total Assets	\$57,989,868	\$25,723,570	\$16,793,871
Long Term Debt	\$17,880,560	\$ 2,500,000	
Shareholders' Equity	\$19,774,728	\$16,891,773	\$13,511,024
Shares Outstanding	3,533,307	3,526,107	3,439,107
Share Price High/Low	\$17.50/11.25	\$15.50/8.75	\$11.75/5.00

PRODUCTION HIGHLIGHTS

Gold Mining

Tons of Ore Milled	470,778	471,798	463,721
Recovered Grade (oz./ton)	0.162	0.185	0.195
Ounces Gold Recovered	76,102	87,433	90,458
Ore Reserves (at year end) — tons	2,183,925	2,117,650	2,400,550
Average Grade (oz./ton)	0.158	0.174	0.177
Mine Operating Costs — per Ton Milled	\$ 13.54	\$ 12.51	\$ 11.90
— per Ounce Recovered	\$ 83.75	\$ 67.49	\$ 61.01

Natural Gas

Production — MCF	1,700,000	1,565,000	976,000
Proven Reserves — MCF	48,244,000	34,340,000	30,178,000

1978 figures consolidate La Luz Mines Limited. As a result some of the data is not comparable with previous years.

1975	1974	1973	1972	1971	1970	1969
\$ 13,719,301	\$13,233,960	\$ 10,548,373	\$5,982,850	\$3,771,978	\$3,331,112	\$3,729,869
\$ 155.00	\$ 162.00	\$ 107.39	\$ 59.77	\$ 41.19	\$ 36.64	\$ 43.32
\$ 217,032	\$ 39,325					
\$ 5,556,750	\$ 4,290,483	\$ 3,160,023	\$2,581,980	\$2,160,125	\$2,244,857	\$2,415,438
\$ 835,781	\$ 399,795	\$ 293,685	\$ 509,608	\$ 480,921	\$ 616,011	\$ 525,803
\$ 2,640,000	\$ 2,575,000	\$ 2,025,000	\$ 638,000	\$ 315,000	\$ 64,725	—
\$ 3,759,899	\$ 4,867,239	\$ 4,492,676	\$2,051,377	\$ 800,759	\$ 668,510	\$ 786,516
\$ 1.10	\$ 1.42	\$ 1.31	\$ 0.60	\$ 0.23	\$ 0.20	\$ 0.23
\$ 4,883,035	\$ 5,692,183	\$ 5,061,361	\$2,448,985	\$1,587,680	\$1,349,246	\$1,311,531
\$ 1.42	\$ 1.66	\$ 1.48	\$ 0.72	\$ 0.47	\$ 0.40	\$ 0.39
\$ 1,715,454	\$ 2,398,375	\$ 1,705,554	\$ 682,221	\$ 341,111	\$ 341,111	\$ 341,061
\$ 0.50	\$ 0.70	\$ 0.50	\$ 0.20	\$ 0.10	\$ 0.10	\$ 0.10
\$ 2,841,844	\$ 2,735,915	\$ 4,570,969	\$2,271,503	\$1,203,596	\$ 684,962	(\$ 46,791)
\$ 4,617,994	\$ 4,316,605	\$ 1,218,877	\$1,092,440	\$ 573,780	\$ 205,462	\$ 44,614
\$ 2,810,360	\$ 2,582,116	\$ 1,819,779	\$1,748,274	\$1,860,481	\$2,161,101	\$2,406,686
\$ 4,014,184	\$ 2,226,387	\$ 1,169,727	\$ 540,651	\$ 584,855	\$ 530,539	\$ 785,431
\$15,914,479	\$12,889,963	\$10,259,688	\$6,712,167	\$4,400,303	\$3,766,657	\$3,919,395
\$12,802,844	\$10,730,899	\$ 8,187,765	\$5,351,143	\$3,856,987	\$3,522,339	\$3,194,940
3,432,107	3,427,107	3,420,107	3,411,107	3,411,107	3,411,107	3,411,107
\$15.50/7.75	\$23.25/9.37	\$ 14.00/3.90	\$5.45/2.39	\$3.90/2.22	\$3.60/2.05	\$7.75/2.85
456,123	377,521	389,622	380,682	377,774	374,580	386,449
0.194	0.216	0.251	0.263	0.243	0.243	0.223
88,568	81,589	98,228	100,101	91,684	90,913	86,096
2,725,450	3,008,000	2,631,350	2,247,000	1,946,460	2,174,000	2,109,000
0.182	0.190	0.220	0.231	0.245	0.241	0.224
\$ 10.66	\$ 10.12	\$ 7.55	\$ 6.27	\$ 5.45	\$ 5.71	\$ 5.77
\$ 55.00	\$ 46.70	\$ 29.71	\$ 23.84	\$ 22.50	\$ 23.53	\$ 25.88
734,500	255,400					
22,769,000	10,830,000					

NOTES: Up to and including 1971, the company received varying amounts of costs-aid under the Emergency Gold Mining Assistance Act. Cost-aid for those years was included in calculating the Operating Profit, Cash Flow from Operations and Net Income. The following are the yearly amounts received from 1969 to 1971, respectively \$90,000; \$367,000; and \$71,000.

BOARD OF DIRECTORS

- ^a William G. Brissenden, Toronto, Ontario
Mining Engineer
- ^a Stanley J. Chad, Calgary, Alberta
Petroleum Engineer, President, Signalta Resources Limited
- ^a Robert E. Fasken, Mississauga, Ontario
Mining Executive, President, United Siscoe Mines Limited
- ^a Maxwell Goldhar, Toronto, Ontario
President, Revenue Properties Company Limited
- ^a Brian K. Meikle, Mississauga, Ontario
Geologist, Vice-President of Operations, Camflo Mines Limited
- ^a Robert M. Smith, Oakville, Ontario
Mining Engineer, President, Camflo Mines Limited
- ^a Bruce Verchere, Montreal, Quebec
Lawyer and Solicitor, Senior Partner, Verchere & Gauthier
- ^a Member of the Executive Member
- ^a Member of the Audit Committee

OFFICERS AND STAFF

- ^a Robert E. Fasken — *Chairman*
- ^a William G. Brissenden — *Vice-Chairman*
- ^a Robert M. Smith — *President*
- ^a Brian K. Meikle — *Vice-President of Operations*
- ^a David Doig — *Vice-President Corporate Affairs and Secretary*
- ^a Meredith E. Holt — *Manager of Exploration*
- ^a Kenneth E. Elrick — *Treasurer*
- ^a Robert D. Sherman — *Assistant Treasurer and Comptroller*
- ^a R. Geoffrey Newbury — *Assistant Secretary*

MINE STAFF

- ^a Mine Manager — Armand Mailloux
- ^a Assistant Mine Manager — Alex Makila
- ^a Chief Engineer — Gordon Fleming
- ^a Mine Superintendent — Michel Sirois
- ^a Electrical Superintendent — Donald Lalonde
- ^a Mill Superintendent — Roger Jolicoeur
- ^a Production Engineer — Michel Sirois
- ^a Mine Accountant — Franc Vodopivec
- ^a Mine Captain — Conrad Dambroise

SUBSIDIARY AND ASSOCIATED COMPANIES

- ^a La Luz Mines Limited
- ^a United Siscoe Mines Limited
- ^a Neomar Resources Limited
- ^a Cochenour Willans Gold Mines Limited

CONSULTANT

- ^a S. Cameron Brown, Havelock, Ontario

EXECUTIVE AND HEAD OFFICE

- Suite 3001, South Tower, P.O. Box 45
Royal Bank Plaza
Toronto, Canada M5J 2J1

MINE OFFICE

- P.O. Box 640, Malartic, Quebec, J0Y 1Z0

TRANSFER AGENT AND REGISTRAR

- The Royal Trust Company
Toronto, Ottawa, Montreal

AUDITORS

- Thorne Riddell & Co.
Chartered Accountants, Toronto, Ontario

SOLICITORS

- Holden Murdoch & Finlay
Toronto, Ontario
- Donovan, Leisure, Newton & Irvine
New York, New York

BANKERS

- The Royal Bank of Canada
Toronto, Ontario

SHARE LISTING

- The Toronto Stock Exchange
Montreal Stock Exchange
Symbol CMF

ANNUAL AND GENERAL MEETING OF SHAREHOLDERS

- May 28, 1979, 11:00 a.m.
Carmichael Jackson Room, Hotel Toronto,
Toronto, Canada

12,160 acres at Doris Creek with options on 20,000 acres in an adjacent area. Seismic coverage indicates excellent potential for oil production from D-2 and Swans Hills Reefs and secondary potential for gas production from several zones.

United States

Camflo is participating in wells in East Texas, Montana and North Dakota. The C. H. Mayes gas well in East Texas is expected to start production by the end of August, and drilling is underway on 2 development wells and one exploration well in East Texas. In Montana and North Dakota 2 wells were drilled and one completed as a potential producer.

A new project of potential importance is in the Palo Duro Basin in West Texas. The operator is American Petrofina. Camflo has a 15% participation in this wildcat exploration programme. Two wells are to be drilled to earn a 5.62% interest in 18 sections with options to drill 2 more wells to earn an interest in a further 271 sections for a potential total of 191,000 acres.

MINERAL EXPLORATION

Drilling is underway in the Camflo/United Siscoe/Getty Kasmere Lake uranium exploration project in northwestern Manitoba. The planned programme for the season was delayed by the unusually late Spring break-up. The results from testing the first 5 target areas will guide a continuing programme involving the drilling of numerous anomalies.

IBERIAN SYNDICATE

Drilling is continuing in Spain where this syndicate is exploring for silver, lead and zinc. Camflo has a 21¼% interest in the syndicate. A second drill has been added to the programme.

OUTLOOK

Earnings are expected to benefit from the continued rise in the price of gold, which recently reached \$242 (Cdn.) an ounce, from the improvement in the La Luz coal operations and from further growth in natural gas revenues.

The company's finances are being augmented with arrangements completed to increase the company's long-term bank loan to \$8,000,000 secured by certain of the company's oil and gas properties.

Camflo participated in a recent financing of Neomar Resources Limited (formerly Martin-McNeely Mines, Limited) and now holds a 25% interest (459,484 shares) at an average cost of \$1.16 per share. Neomar has natural gas income, is participating in oil and gas exploration projects in Canada and the United States and has a 35% interest in Wilmar Mines Limited which owns a gold property in the Red Lake area of Ontario.

On behalf of the Board of Directors.

A. W. STOLLERY
Chairman

G. T. SMITH
President

August 14, 1978.

CAMFLO MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

For the six months ended June 30, 1978

	1978	1977
WORKING CAPITAL DERIVED FROM		
Operations	\$ 3,706,770	\$ 2,784,437
Long-term debt	1,500,000	1,200,000
Proceeds from sale of fixed assets	352,496	—
Receipts on mortgages receivable from employees	2,653	3,317
	<u>5,561,919</u>	<u>3,987,754</u>
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	1,002	153,654
Investment in and loan to effectively controlled resource company	2,150,328	—
Petroleum and natural gas properties	1,368,884	755,062
Exploration advances	1,140,482	41,358
Increase in deferred outside exploration expenditures ...	208,888	159,913
Dividends paid	695,221	687,821
Purchase of shares of other companies	824,106	2,269,515
Deferred mine exploration and development expenditures	252	61,993
	<u>6,389,163</u>	<u>4,129,316</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(827,244)	(141,562)
WORKING CAPITAL AT BEGINNING OF PERIOD .	306,101	1,419,616
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	\$ (521,143)	\$ 1,278,054

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CAMFLO MINES LIMITED



INTERIM REPORT TO SHAREHOLDERS

For the Six Months ended June 30, 1978

CAMFLO MINES LIMITED

Suite 3001, South Tower
Box 45, Royal Bank Plaza
Toronto, Ontario
M5J 2J1

To the Shareholders:

Revenue from the sale of gold bullion at \$8,321,056 was ahead 26% from the \$6,600,356 received in the first half of 1978. The higher price of gold was the principal factor in the 55% increase in earnings to \$2,365,807 or 67¢ a share for the first half of the current year. This compares with earnings of \$1,521,453 or 44¢ a share reported for the same period in 1977.

Profits for the 6 months to June 30, 1978 are after absorption of \$492,143 of losses accruing to Camflo from La Luz Mines Limited, equivalent to 14¢ per share of Camflo. A total of \$415,000 of this loss was incurred in the first quarter when the coal mines in Ohio were shut down by an industry-wide strike. In the similar 1977 period Camflo absorbed La Luz losses of \$412,137, the equivalent of 12¢ a Camflo share.

The coal joint venture in Ohio is now operating profitably. The expansion has been almost completed and La Luz should make a positive contribution to Camflo's earnings in the remainder of 1978.

Oil and gas interests continue to contribute increased revenue with a 20% rise to \$877,307 from \$733,672 in the first half of 1977.

Cash flow was \$3,706,770 equal to \$1.05 a share up from \$2,784,437 or 81¢ a share for the same period last year.

GOLD MINING

The average price received for gold produced rose to \$200 (Cdn.) per ounce from \$152 (Cdn.) in the first half last year and from \$162.50 (Cdn.) an ounce average for the full 1977 year.

A total of 41,536 ounces of gold was produced from 233,716 tons for an average grade of 0.178 ounces of gold per ton. This production compares with 43,337 ounces from 234,854 tons of 0.185 ounces of gold per ton in the first half of 1977.

OIL AND GAS

Production cut-backs in the second quarter temporarily reduced revenues. Market conditions have improved recently and indications are that gas production in both Alberta and East Texas will increase for the remainder of the year.

The company continues to expand its interests in the oil and gas industry aggressively and will participate in drilling more than 60 wells during the balance of the year in Canada and the United States.

Canada

In the first half of 1978 Camflo participated in drilling 30 wells in Alberta and British Columbia of which 14 were cased as potential producers. One area of special interest is at Doris Creek in Alberta where the Renaissance group, in which Camflo has a 14.6% interest, is now drilling a well to 10,000 feet. The group has interests ranging from 6% to 8% in a total of

CAMFLO MINES LIMITED

and its wholly owned subsidiary

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

For the six months ended June 30, 1978

	First Quarter 1978	Second Quarter 1978	Six Months June 30 1978	Six Months June 30 1977
Tons of Ore Milled	117,628	116,088	233,716	234,854
Bullion recovery (ounces)	20,626	20,910	41,536	43,337
Gross Value of Production	\$4,259,765	\$4,061,291	\$8,321,056	\$6,600,356
Petroleum and natural gas production	581,423	295,884	877,307	733,672
	4,841,188	4,357,175	9,198,363	7,334,028
Operating and administrative expenses other than items set out below	1,750,569	2,037,371	3,787,940	3,273,688
Quebec mining tax	300,000	320,000	620,000	300,000
Outside exploration expenses	—	—	—	20,515
	2,050,569	2,357,371	4,407,940	3,594,203
	2,790,619	1,999,804	4,790,423	3,739,825
Depreciation	153,150	150,422	303,572	318,360
Amortization of preproduction expenditures	4,000	4,000	8,000	10,000
Amortization of deferred exploration and development expenditures	39,000	39,000	78,000	74,080
Depreciation and depletion of petroleum and natural gas properties	69,330	64,259	133,589	133,407
	265,480	257,681	523,161	535,847
	2,525,139	1,742,123	4,267,262	3,203,978
Share of income (loss) of effectively controlled company	(415,000)	(77,139)	(492,139)	(412,137)
Interest and other investment income (expense)	(135,111)	34,601	(100,510)	(50,388)
Gain on sale of fixed assets	—	211,194	211,194	—
Income before income taxes	1,975,028	1,910,779	3,885,807	2,741,453
Income taxes				
Current	620,000	500,000	1,120,000	915,000
Deferred	200,000	200,000	400,000	305,000
Net income for the period	\$1,155,028	\$1,210,779	\$2,365,807	\$1,521,453
Net income per share	\$.33	\$.34	\$.67	\$.44
Cash flow per share	\$.58	\$.47	\$1.05	\$.81